

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Genesee District Library</b>	County <b>Genesee</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>2/22/06</b>	Date Accountant Report Submitted to State: <b>4/26/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Lewis &amp; Knopf, P.C.</b>			
Street Address <b>5206 Gateway Centre - Ste 100</b>	City <b>Flint</b>	State <b>MI</b>	ZIP <b>48507</b>
Accountant Signature 		Date	

GENESEE DISTRICT LIBRARY

FLINT, MICHIGAN

AUDIT REPORT FOR THE YEAR ENDED DECEMBER 31, 2005

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*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

February 22, 2006

INDEPENDENT AUDITOR'S REPORT

To the Trustees of  
Genesee District Library

We have audited the accompanying financial statements of the governmental activities of Genesee District Library, as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Genesee District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Genesee District Library as of December 31, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2006, on our consideration of Genesee District Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages II - V is not required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Genesee District Library's basic financial statements. The accompanying other supplementary information, as identified, in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lewis & Knopf PC*

LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

GENESEE DISTRICT LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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USING THIS ANNUAL REPORT

This annual report consists of three parts: *Management's Discussion and Analysis* (this section), the *basic financial statements*, and *required supplementary information*.

- \* The statement of net assets presents the Library's operations on a full accrual basis, which provides both long, and short- term information about the Library's *overall* financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library on a longer-term view of the Library's finances.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

CONDENSED FINANCIAL INFORMATION

The following table below shows key financial information in a condensed format:

<u>ASSETS</u>	
Current Assets	\$6,191,783
Non-Current Assets	<u>948,675</u>
<u>TOTAL ASSETS</u>	<u><u>\$7,140,458</u></u>
<u>LIABILITIES</u>	
Current Liabilities	\$483,505
Non-Current Liabilities	<u>220,000</u>
Total Liabilities	<u>\$703,505</u>
<u>NET ASSETS</u>	
Invested in Capital Assets - Net of Related Debt	948,675
Restricted	79,774
Unrestricted	<u>5,408,504</u>
Total Net Assets	<u><u>\$6,436,953</u></u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u><u>\$7,140,458</u></u>
<u>REVENUE</u>	
Property Taxes	\$6,377,250
Other	<u>1,983,039</u>
Total Revenue	<u>\$8,360,289</u>
<u>EXPENDITURES - LIBRARY SERVICES</u>	<u>9,432,258</u>
<u>CHANGE IN NET ASSETS</u>	<u><u>(\$1,071,969)</u></u>

GENESEE DISTRICT LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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THE LIBRARY AS A WHOLE

- \* The Library is reporting financial statements this year that meet the requirements of GASB 34.
- \* The Library's primary source of revenue is from property taxes. For 2005, total tax collections were \$6,377,250. This represents approximately 76 percent of total revenue.
- \* Salaries and fringe benefits are the largest overall expenditure of the Library. For 2005, this expenditure was \$5,256,759, representing 56 percent of the Library's total expenditures. The addition of 3 full time employees and 3 part time employees, plus an average 3 percent increase in salaries contributed to an overall increase of \$535,474 over the previous year.
- \* Library materials (books, periodicals and audio visuals) of \$1,852,100 are the second largest overall expenditure of the Library, representing 20 percent of the Library's total expenditures.

THE LIBRARY'S FUND

Our analysis of the Library's Operating Fund is included on pages 1 and 2 of the respective statements. The Library's only fund is the Operating Fund.

- \* The fund balance of the Operating Fund decreased by \$1,071,969 for the year. This represents expenses greater than revenue.
- \* The restricted fund balance of \$79,774 consists of contributions, legacies and bequests.
- \* The Library Board has designated funds established for budget stabilization see Note 6.

LIBRARY BUDGETARY HIGHLIGHTS

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendment occurred when GASB changes included an additional \$1,012,000 to the budget for contributed facilities, depreciation, gifts & grants, and a small transfer from the general fund balance.

OPERATING FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

**OPERATING FUND BUDGET VS. ACTUAL**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original &amp; Final Budget %</u>	<u>Variance Actual &amp; Final Budget %</u>
Revenues	\$7,322,776	\$8,082,776	\$8,360,289	9.40	3.43
Expenditures	9,290,126	10,302,126	9,432,258	9.82	8.44
<u>TOTAL</u>	<u>(\$1,967,350)</u>	<u>(\$2,219,350)</u>	<u>(\$1,071,969)</u>		

GENESEE DISTRICT LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

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Original vs. Final Budgets

Revenues

The revenue budget increased about \$760,000. The increase was due to the budgeting of contributed facilities.

Expenditures

The increase in expenditures from the original to final budget was due to contributed facilities expense and depreciation expense. There were other allocations between categories throughout the year.

Actual Results vs. Final Budgets

Revenues

Tax collections were lower than expected and some tax appeals were also granted.

Single business tax was not received from Genesee County. The Treasurer claims the State of Michigan never forwarded these funds.

The penal fines were higher than expected.

Expenditures

Loss on fixed assets was the result of Genesee Valley Center terminating the existing demonstration location and moving it to another location in the mall.

Depreciation expense was higher than expected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As a result of GASB 34 implementation, the library adopted a capitalization policy of \$1,000. Capital asset activity for the year ended December 31, 2005, was as follows:

	BALANCE JAN. 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE DEC. 31, 2005
<u>GOVERNMENTAL ACTIVITIES</u>				
Equipment and Furniture	\$1,224,303	\$179,268	\$123,493	\$1,280,078
Leasehold Improvement	646,770	85,897	84,110	648,557
Totals at Historical Cost	\$1,871,073	\$265,165	\$207,603	\$1,928,635
Less: Accumulated Depreciation	(910,121)	(221,945)	(152,106)	(979,960)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$960,952</u>	<u>\$43,220</u>	<u>\$55,497</u>	<u>\$948,675</u>

Significant capital asset acquisitions consists of computer equipment and building improvements.

GENESEE DISTRICT LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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DEBT

A summary of the debt outstanding at the Library is as follows:

<u>Governmental Activities:</u>	<u>BALANCE</u> <u>JAN 1., 2005</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>DEC. 31, 2005</u>
Compensated Absences	<u>\$200,000</u>	<u>\$20,000</u>	<u>\$0</u>	<u>\$220,000</u>

The compensated absences represent the estimated liability to be paid employees under the Library's vacation pay policy. Under the Library's policy, employees earn vacation time based on time of service with the Library.

MILLAGE RATES

During August, 1987, the voters of the district approved a millage, authorized by election charter, of .7895 mills. The Library levied .7563 mills and the difference between the authorized and levied is .0332 mills. The difference is because of the Headlee rollback. This millage expires on January 1, 2008.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the Library's finances. If you have questions about this report or need additional information, contact the Executive Director at Genesee District Library, G-4195 W. Pasadena Avenue, Flint, MI 48504.



GENESEE DISTRICT LIBRARY  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2005

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$5,869,867
Accounts Receivable	316,138
Prepaid Expenses	5,778
Total Current Assets	<u>\$6,191,783</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets	1,928,635
Less: Accumulated Depreciation	<u>(979,960)</u>
Total Noncurrent Assets	<u>\$948,675</u>
<u>TOTAL ASSETS</u>	\$7,140,458
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	191,030
Accrued and Other Liabilities	109,201
Deferred Revenue	183,274
Total Current Liabilities	<u>\$483,505</u>
<u>LONG-TERM LIABILITIES</u>	
Compensated Absences	<u>220,000</u>
Total Liabilities	<u>\$703,505</u>
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	948,675
Restricted	79,774
Unrestricted	<u>5,408,504</u>
<u>TOTAL NET ASSETS</u>	<u><u>\$6,436,953</u></u>

See accompanying notes to the basic financial statements.

GENESEE DISTRICT LIBRARY  
STATEMENT OF ACTIVITIES  
DECEMBER 31, 2005

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue &amp; Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
General Government	\$9,432,258	\$93,930	\$21,933	(\$9,316,395)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				6,377,250
State Penal Fines/Single Business Tax				454,356
State Aid				276,771
Investment Earnings				176,871
Mid Eastern Michigan Library Cooperative				116,085
Use of Contributed Facilities				747,945
Miscellaneous Revenue				95,148
Total General Revenues and Transfers				<u>\$8,244,426</u>
Change in Net Assets				(\$1,071,969)
Net Assets - Beginning				<u>7,508,922</u>
<u>Net Assets - Ending</u>				<u><u>\$6,436,953</u></u>

See accompanying notes to the basic financial statements.

GENESEE DISTRICT LIBRARY  
BUDGETARY COMPARISON SCHEDULE - OPERATING FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
<u>REVENUES</u>				
Property Taxes	\$6,435,984	\$6,435,984	\$6,377,250	(\$58,734)
State Penal Fines/Single Business Tax	484,962	484,962	454,356	(30,606)
State Aid	125,400	125,400	276,771	151,371
Investment Earnings	75,000	75,000	176,871	101,871
Grants	0	0	1,500	1,500
Contributions, Legacies, and Bequests	0	0	20,433	20,433
Library Fines, Fees and Other	76,000	76,000	72,075	(3,925)
F.A.L.C.O.N. Revenue	0	0	21,855	21,855
Mid Eastern Michigan Library Cooperative	75,430	75,430	116,085	40,655
Use of Contributed Facilities	0	760,000	747,945	(12,055)
Miscellaneous Revenue	50,000	50,000	95,148	45,148
Total Revenues	\$7,322,776	\$8,082,776	\$8,360,289	\$277,513
<u>EXPENDITURES</u>				
Salaries and Wages	4,020,973	4,020,973	3,774,449	246,524
Fringe Benefits	1,572,313	1,572,313	1,482,310	90,003
Supplies	265,000	264,000	251,110	12,890
Books	1,247,500	1,188,500	1,110,802	77,698
Periodicals	75,000	75,000	74,341	659
Audio Visual	599,000	679,000	666,957	12,043
Contractual Services	438,340	445,340	342,741	102,599
Telephone	175,000	179,000	177,879	1,121
Travel	40,000	40,000	27,824	12,176
Printing	220,000	245,000	235,371	9,629
Insurance	32,600	32,600	22,039	10,561
Utilities	36,000	36,000	29,281	6,719
Building & Maintenance	198,700	194,700	165,564	29,136
Miscellaneous	19,700	25,400	13,777	11,623
Capital Outlay	350,000	350,000	32,424	317,576
Other	0	954,300	1,025,389	(71,089)
Total Expenditures	\$9,290,126	\$10,302,126	\$9,432,258	\$869,868
<u>REVENUES (UNDER) EXPENDITURES</u>	<u>(\$1,967,350)</u>	<u>(\$2,219,350)</u>	<u>(\$1,071,969)</u>	<u>\$1,147,381</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>			7,508,922	
<u>FUND BALANCE - END OF YEAR</u>			\$6,436,953	

See accompanying notes to the basic financial statements.

GENESEE DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Genesee District Library was organized under the provisions of the District Library Act of the State of Michigan. The electorate created the Genesee District Library on January 1, 1980. The primary purpose of Genesee District Library is to provide support services for eighteen county locations.

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

REPORTING ENTITY

The Genesee District Library is the basic level of government that has financial accountability and control over all activities related to the Library within the geographical area known Genesee County, excluding the City of Flint. The Library receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the Library is not included in any other governmental "reporting entity" as defined by GASB pronouncement. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14 which are included in the Library's reporting entity.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Library has one fund, the Operating Fund.

The Operating Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. Normally, expenditures are divided between years by the recording of prepaid expenses. The prepaid expenses reported on the balance sheet represent payments made in advance for 2005 expenditures.

In addition to presenting information for the Operating Fund, the statements combine all fund activity and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

Operating Fund

The operating fund represents resources over which the trustees have discretionary control and are used to carry out the operations of the organization.

GENESEE DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL STATEMENT AMOUNTS

CASH AND CASH EQUIVALENTS

The Library considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Investments are reported at fair market value and determined using selected bases. Short-term investments are reported at cost, which approximate fair values. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

PREPAID EXPENSES

Prepaid balances are for payments made by the Library in the current year to provide services occurring in the subsequent fiscal year.

CAPITAL ASSETS

Generally, capital assets are defined by the Library with an initial cost of more than \$1,000. Such assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred.

Depreciation on such capital assets is charged as an expense against the operations on a straight-line basis over the following estimated useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives (Years)</u>
Equipment and Furniture	5 – 7
Leasehold Improvements	10 – 15

Inexhaustible Collections and Books

Because the values of the existing inexhaustible collections, including research books, are not readily determinable, the library has not capitalized them.

REVENUE RECOGNITION

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restriction.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Library reports any donor-restricted contributions whose restrictions are not in the same accounting period as unrestricted support.

CONTRIBUTED FACILITIES

The Library occupies certain premises, which are located in government owned buildings, without charge or at a nominal charge of \$1. The estimated fair rental value of the premises is reported as support and the corresponding expenses are shown in the period in which the premises are used. The district library does not actually own or control the seventeen county locations. The facilities belong to the local community. The Genesee District Library merely furnishes services and personnel for these various locations.

GENESEE DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES

The Library reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick and vacation leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick and vacation leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the Library's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

DEFERRED REVENUE

Income is recognized as revenue as it is earned. Prepayments are recorded as deferred until the revenue is earned over the year.

INCOME TAX STATUS

The Library has been granted exemption from federal income taxes as an organization other than a private foundation under Internal Revenue Code.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

2) DEPOSITS

Michigan Compiled Laws, Section 129.91, authorizes the Library to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Protection of the Library's deposits is provided by the Federal Deposit Insurance Corporation (FDIC).

Deposits - The Board authorized the following financial institutions for the deposit of the Library's funds for the year ended December 31, 2005: Chase, Republic Bank and Citizens Bank.

GENESEE DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

2) DEPOSITS (Continued)

At December 31, 2005, the carrying amount of the Library's deposits, on the books was \$5,869,867. The bank balance with financial institutions classified as to risk was as follows:

Insured (FDIC or FSLIC)	\$ 456,604
Uninsured – Uncollateralized	<u>5,475,966</u>
<u>TOTAL</u>	<u>\$ 5,932,570</u>

3) CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2005, was as follows:

	<u>BALANCE</u> <u>JAN. 1, 2005</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>DEC. 31, 2005</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Equipment and Furniture	\$1,224,303	\$179,268	\$123,493	\$1,280,078
Leasehold Improvements	<u>646,770</u>	<u>85,897</u>	<u>84,110</u>	<u>648,557</u>
Total Capital Assets	\$1,871,073	\$265,165	\$207,603	\$1,928,635
Less: Accumulated Depreciation	<u>(910,121)</u>	<u>(221,945)</u>	<u>(152,106)</u>	<u>(979,960)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$960,952</u>	<u>\$43,220</u>	<u>\$55,497</u>	<u>\$948,675</u>

Depreciation expense was \$221,945 for the year ended December 31, 2005.

4) LONG-TERM DEBT

A summary of the debt outstanding at the Library is as follows:

	<u>BALANCE</u> <u>JAN. 1, 2005</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>DEC. 31, 2005</u>
<u>Governmental Activities:</u>				
Compensated Absences	<u>\$200,000</u>	<u>\$20,000</u>	<u>\$0</u>	<u>\$220,000</u>

The compensated absences represent the estimated liability to be paid to employees under various sick and vacation pay contracts. Under the Library's various contracts, employees earn vacation and sick time based on time of service with the Library.

5) RESTRICTED NET ASSETS

Changes in restricted net assets are summarized below:

Balance – Beginning	\$ 83,643
Additions	
Contributions, Legacies and Bequests	<u>16,564</u>
Total	\$ 100,207
Deductions - Funds Expended During the Year	<u>20,433</u>
<u>BALANCE – ENDING</u>	<u>\$ 79,774</u>

GENESEE DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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6) DESIGNATED FUND BALANCE

With the implementation of GASB 34, designated fund balance is not presented on the financial statements but the board of directors have made some designations as of December 31, 2005. They are as follows:

Equipment Fund	\$ 1,022,052
Election Fund	100,000
LSCA Title II (20 year/2014, HQ Building Grant)	101,250
Retirement Reduction Fund	880,000
Retiree Health Care Premium Fund (See Note 9)	<u>2,300,000</u>
<u>TOTAL</u>	<u>\$ 4,403,302</u>

7) LEASE

The Library leases space at the Genesee Valley Mall. From January 1, 2004 to September 30, 2004 the lease was a month to month lease with a monthly lease rate of \$1,000. On October 1, 2004 the Library signed a new three-year which expires on September 30, 2007. Monthly rent is \$2,200 per month. Future obligations are as follows:

2006	\$ 26,400
2007	<u>19,800</u>
<u>TOTAL</u>	<u>\$ 46,200</u>

The Library also leases various pieces of branch and office equipment including multiple copy machines. The future obligations for the copiers are as follows:

2006	\$ 18,636
2007	18,636
2008	18,636
2009	18,636
2010	<u>8,396</u>
<u>TOTAL</u>	<u>\$ 82,940</u>

8) DEFINED BENEFIT PENSION PLAN

The Library has a defined benefit pension plan covering substantially all employees. The plan is operated by the Genesee County Retirement System (GRS), which is an agent multiple-employer public employee retirement system (PERS). The pension plan provides retirement, survivor and disability benefits. Separate financial statements for the Library are prepared by GRS on an annual basis.

Most of the Library employees are eligible to participate in the GRS. Employees hired on or after January 1, 1998, shall be required to contribute 1.0% of their gross compensation for each payroll period to the Retirement System. Employees hired prior to January 1, 1998, shall be required to contribute 0.5% of their gross compensation for each payroll period to the Retirement System. A basic plan member, hired before July 1, 1995, may retire at age 60 with 8 or more years of credited service. A basic plan member, hired after July 1, 1995, may retire at age 60 with 12 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to the final average compensation (FAC) times the sum of a) 2.3% for the first 25 years of service plus b) 1.0% for years of service in excess of 25 years. Maximum employer financed portion is 60% of FAC. Final average compensation is the employee's average salary over the last highest 5 years out of the last 10 years of credited service. For 6 administration employees FAC is the highest 2 years.



GENESEE DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

8) DEFINED BENEFIT PENSION PLAN (Continued)

The Library's current year covered payroll and its total current year payroll for all employees amounted to \$3,440,486 and \$3,732,861, respectively.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of the projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the GRS's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among GRS and employers. The GRS makes separate measurements of assets and pension benefit obligation for individual municipalities. The pension benefit obligation at December 31, 2004 (latest reporting date available) for the Library, determined through an actuarial valuation performed as of that date, was \$11,221,138. The benefit obligation is for vested and nonvested current employees. The Library's net assets available for benefits on that date (valued at cost) were \$12,433,379, leaving an overfunded pension benefit obligation of \$1,212,241. The Library made contributions of \$187,453 for the year ended December 31, 2005. The investment return rate and pay increase assumption used in making the actuarial valuation was 8%. The Library funding policy is to contribute annually an amount sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Library may determine to be appropriate. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligations.

Ten year historical trend information showing the GRS's progress in accumulating sufficient assets to pay benefits when due is presented in the December 31, 2004 comprehensive annual financial report. Three year historical trend information is as follows:

VALUATION DATE	NET ASSETS AVAILABLE FOR BENEFITS	PENSION BENEFIT OBLIGATION	PERCENT FUNDED	AMOUNT
12-31-02	\$ 414,125,511	\$ 423,009,102	97.9%	\$ 8,883,591
12-31-03	405,218,225	433,147,789	93.6%	27,929,564
12-31-04	404,492,706	458,068,584	88.3%	53,575,878

9) POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 10, the library provides post retirement health care benefits to employees who retire after attaining at least 25 years of service. Employee with less than twenty-five (25) years of credited service who retire at sixty (60) years of age or older, but who were hired after July 1, 1995, shall be eligible for eighty (80%) percent employer paid health insurance coverage. The employee portion of the cost for health insurance coverage shall offset the annual employee maximum for such increases in health insurance premiums on a dollar-for-dollar basis. Employees who retired from active employment with employer between January 1, 1998 and December 31, 2002 shall be eligible for full employer paid health insurance coverage; provided that they pay fifty (50%) of any increase in health insurance premiums, up to an annual maximum of \$460. Currently 25 retirees meet those requirements and 24 are receiving medical insurance coverage. The library is accounting for the expense on a pay-as-you-go-basis. The medical insurance premiums are 100% paid by the library and amounted to \$19,307 per month, or \$231,679 for the 2005 year. The library is in the process of establishing a funded post retirement healthcare plan through Genesee County Retirement System.

GENESEE DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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10) ECONOMIC DEPENDENCY

The library receives a substantial amount of its support from state and local governments. A significant reduction in the level of this support may have an effect on the library's programs and activities. The library's voter approved tax millage expires December 31, 2007.

INDIVIDUAL FUND SCHEDULES OF  
EXPENDITURES

GENESEE DISTRICT LIBRARY  
SCHEDULE OF OTHER EXPENDITURES AS COMPARED TO BUDGET - OPERATING FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
<u>SALARIES</u>				
Salary - Administration	\$681,557	\$681,557	\$620,328	\$61,229
Salary - Full Time	2,618,228	2,618,228	2,535,629	82,599
Salary - Part Time	130,890	152,890	151,368	1,522
Salary - Temporary	30,000	30,000	5,726	24,274
Salary - Overtime	138,000	116,000	83,034	32,966
Salary - Shelves	330,580	330,580	286,648	43,932
Longevity	91,718	91,718	91,716	2
Total Salaries	\$4,020,973	\$4,020,973	\$3,774,449	\$246,524
<u>FRINGE BENEFITS</u>				
Social Security	311,062	311,062	284,752	26,310
Retirement	197,731	197,731	187,453	10,278
Medical Insurance	864,678	854,678	826,041	28,637
Dental Insurance	67,440	67,440	57,520	9,920
Life and Disability	52,970	52,970	49,970	3,000
Worker's Compensation	9,600	9,600	7,577	2,023
Unemployment	10,000	18,000	16,784	1,216
Optical Insurance	16,832	16,832	15,989	843
Educational Reimbursement	15,600	15,600	8,024	7,576
Annuity Expenditure	26,400	28,400	28,200	200
Total Fringe Benefits	\$1,572,313	\$1,572,313	\$1,482,310	\$90,003
<u>SUPPLIES</u>				
Office Supplies	15,000	14,000	9,419	4,581
Operating Expenditures	200,000	200,000	192,685	7,315
Postage and Shipping	50,000	50,000	49,006	994
Total Supplies	\$265,000	\$264,000	\$251,110	\$12,890
<u>BOOKS</u>				
Books - Documents and Pamphlets	2,500	2,500	2,500	0
Books - E Books	5,000	10,000	9,437	563
Books - Paperbacks	30,000	30,000	23,627	6,373
Books - Reference	425,000	450,000	449,450	550
Books - Restricted	0	21,000	20,366	634
Books - System	785,000	675,000	605,422	69,578
Total Books	\$1,247,500	\$1,188,500	\$1,110,802	\$77,698
<u>PERIODICALS</u>				
Magazines and Newspapers	75,000	75,000	74,341	659
<u>AUDIO - VISUAL</u>				
CD's and Videocassettes	85,000	95,000	90,985	4,015
A-V Microfilm - Materials	14,000	14,000	12,350	1,650
Digital Video Disks	350,000	400,000	396,382	3,618
Audio Cassettes	150,000	170,000	167,240	2,760
Total Audio - Visual	\$599,000	\$679,000	\$666,957	\$12,043

GENESEE DISTRICT LIBRARY  
SCHEDULE OF OTHER EXPENDITURES AS COMPARED TO BUDGET - OPERATING FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>CONTRACTUAL SERVICES</u>				
Attorney	\$30,000	\$30,000	\$11,801	\$18,199
Payroll	8,000	8,700	8,434	266
Auditor	7,000	6,300	6,243	57
Consultant	29,340	61,340	37,937	23,403
Programming	215,000	190,000	157,181	32,819
Software	65,000	58,000	49,838	8,162
Staff Development	24,000	24,000	4,885	19,115
O.C.L.C. and M.L.C.	60,000	67,000	66,422	578
Total Contractual Services	\$438,340	\$445,340	\$342,741	\$102,599
<u>TELEPHONE</u>				
Telephone	175,000	179,000	177,879	1,121
<u>TRAVEL</u>				
Travel - Regular	16,500	16,500	11,118	5,382
Travel - Workshop	21,300	21,300	14,927	6,373
Gas and Oil	2,200	2,200	1,779	421
Total Travel	\$40,000	\$40,000	\$27,824	\$12,176
<u>PRINTING AND ADVERTISING</u>				
Public Relations	95,000	110,000	109,949	51
Printing and Publishing	20,000	60,000	57,469	2,531
Events, Sponsorships, and Themes	100,000	70,000	65,968	4,032
Advertising	5,000	5,000	1,985	3,015
Total Printing and Advertising	\$220,000	\$245,000	\$235,371	\$9,629
<u>INSURANCE</u>				
Building and Contents	19,000	19,000	11,535	7,465
Liability and Bonds	8,600	8,600	8,405	195
Automobile Insurance	5,000	5,000	2,099	2,901
Total Insurance	\$32,600	\$32,600	\$22,039	\$10,561
<u>UTILITIES</u>				
Public Utilities	36,000	36,000	29,281	6,719
<u>BUILDING AND MAINTENANCE</u>				
Equipment Repairs and Maintenance	12,000	12,000	3,219	8,781
Equipment Service Contracts	34,200	24,200	23,301	899
Equipment Lease	32,000	32,000	28,679	3,321
Building Repairs and Maintenance	20,000	20,000	15,701	4,299
Building Service Contracts	85,500	85,500	75,073	10,427
Building Supplies	5,000	5,000	3,966	1,034
Computer Parts and Supplies	10,000	16,000	15,625	375
Total Building and Maintenance	\$198,700	\$194,700	\$165,564	\$29,136

GENESEE DISTRICT LIBRARY  
SCHEDULE OF OTHER EXPENDITURES AS COMPARED TO BUDGET - OPERATING FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<u>MISCELLANEOUS</u>				
Rent	\$5,700	\$11,400	\$4,062	\$7,338
Binding	500	500	0	500
Refunds	2,000	2,000	1,119	881
Memberships	5,500	5,500	3,176	2,324
Director's Business Expenditure	1,000	1,000	434	566
Board Expenditure	5,000	5,000	4,986	14
Total Miscellaneous	<u>\$19,700</u>	<u>\$25,400</u>	<u>\$13,777</u>	<u>\$11,623</u>
 <u>CAPITAL OUTLAY</u>				
Capital Outlay	350,000	350,000	32,424	317,576
 <u>OTHER</u>				
Contributed Facilities	0	754,300	747,945	6,355
Depreciation	0	200,000	221,945	(21,945)
Loss on Sale of Fixed Assets	0	0	55,499	(55,499)
Total Other	<u>\$0</u>	<u>\$954,300</u>	<u>\$1,025,389</u>	<u>(\$71,089)</u>
 <u>TOTAL OPERATING EXPENDITURES</u>	<u><u>\$9,290,126</u></u>	<u><u>\$10,302,126</u></u>	<u><u>\$9,432,258</u></u>	<u><u>\$869,868</u></u>



*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

February 22, 2006

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees of  
Genesee District Library

We have audited the financial statements of the governmental activities of Genesee District Library, as of and for the year ended December 31, 2005, which collectively comprise the Genesee District Library's basic financial statements and have issued our report thereon dated February 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Genesee District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Genesee District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the finance committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

February 22, 2006

To the Board of Trustees of  
Genesee District Library

In planning and performing our audit of the financial statements of Genesee District Library for the year ended December 31, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Genesee District Library's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

The following items of immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2005, Genesee District Library incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

2. Segregation of Duties

Due to the limited size of Genesee District Library's accounting staff, ideal segregation of responsibilities for internal control purposes is impractical. An effective system of internal accounting control contemplates an adequate separation of duties so that no one individual handles a transaction from its inception to its completion. We recognize that Genesee District Library is not large enough to make the employment of additional persons, for the purpose of separating duties, practical from a financial standpoint; but we are required, under our professional responsibilities to call this situation to your attention.

3. Investment Policy

The Board needs to develop and approve an investment policy in accordance with GASB 40.





Genesee District Library  
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February 22, 2006

### FUTURE ISSUES

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Genesee District Library, the effective implementation date must begin by December 31, 2007. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The Library may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- \* Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- \* Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- \* Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Genesee District Library's Board of Trustees and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

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